

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John D. Trisler, Mercer County Judge/Executive

Members of the Mercer County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise Mercer County's basic financial statements.

We engaged Peercy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Peercy and Gray, PSC, evaluated Mercer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

June 30, 2008

Peercy and Gray, PSC has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information of Mercer County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$9,268,908 as of June 30, 2008. Of this amount the fiscal court had unrestricted net assets of \$7,539,182. The fiscal court had total debt principal on June 30, 2008 of \$4,286,917 with \$58,312 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2009, on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

January 15, 2009

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

John D. Trisler	County Judge/Executive
Ronnie Sims	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Donnald Webb	Magistrate
Wayne Jackson	Magistrate
Alvis Johnson	Magistrate

Other Elected Officials:

Douglas Greenburg	County Attorney
Cleo W. Baker Jr.	Jailer
Chris Horn	County Clerk
Rose Bishop	Circuit Court Clerk
Chris Kehrt	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphey	Road Supervisor

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MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 7,672,385
Note Receivable (Hospital Equipment)	58,312
Total Current Assets	<u>7,730,697</u>
Noncurrent Assets:	
Note Receivable (Hospital Equipment)	228,605
Capital Assets - Net of Accumulated Depreciation	
Construction in Progress	804,527
Land and Land Improvements	254,884
Buildings	1,402,251
Equipment	582,578
Vehicles	164,274
Infrastructure	2,388,009
Total Noncurrent Assets	<u>5,825,128</u>
Total Assets	<u>13,555,825</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	58,312
Total Current Liabilities	<u>58,312</u>
Noncurrent Liabilities:	
Bond Anticipation Note	4,000,000
Financing Obligations Payable	228,605
Total Noncurrent Liabilities	<u>4,228,605</u>
Total Liabilities	<u>4,286,917</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,596,523
Restricted For:	
Landfill	133,203
Unrestricted	7,539,182
Total Net Assets	<u>\$ 9,268,908</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
Governmental Activities:					
General Government	\$ 1,793,809	\$ 62,865	\$ 262,649	\$	\$ (1,468,295)
Protection to Persons and Property	1,128,946		106,344		(1,022,602)
General Health and Sanitation	383,166	11,013			(372,153)
Social Services	91,435				(91,435)
Recreation and Culture	167,574				(167,574)
Transportation Facilities and Services	6,287				(6,287)
Roads	993,412		1,618,255		624,843
Debt Service	5,142				(5,142)
Capital Projects	6,559				(6,559)
Total Governmental Activities	<u>\$ 4,576,330</u>	<u>\$ 73,878</u>	<u>\$ 1,987,248</u>	<u>\$ 0</u>	<u>(2,515,204)</u>

General Revenues:

Taxes:

Real Property Taxes	766,052
Personal Property Taxes	56,562
Motor Vehicle Taxes	138,137
Franchise Taxes	132,933
Occupational Taxes	1,166,295
Net Profit Taxes	127,489
Other Taxes	387,767
Excess Fees	241,244
Miscellaneous Revenues	247,594
Interest	164,339

Total General Revenues and Transfers	3,428,412
Change in Net Assets	913,208
Net Assets - Beginning (Restated)	8,355,700
Net Assets - Ending	<u>\$ 9,268,908</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Payroll and Net Profit Tax Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,288,006	\$ 1,133,360	\$ 576,703	\$ 1,076,289
Total Assets	<u>\$ 1,288,006</u>	<u>\$ 1,133,360</u>	<u>\$ 576,703</u>	<u>\$ 1,076,289</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 7,039	\$ 24,622	\$ 7,873	\$ 537
Landfill				
Construction				
Debt Service				
Unreserved:				
General Fund	1,280,967			
Special Revenue Funds	<u> </u>	<u>1,108,738</u>	<u>568,830</u>	<u>1,075,752</u>
Total Fund Balances	<u>\$ 1,288,006</u>	<u>\$ 1,133,360</u>	<u>\$ 576,703</u>	<u>\$ 1,076,289</u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2008
(Continued)

Public Properties Corporation- Construction Fund	Public Properties Corporation- Debt Service Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 3,132,209</u>	<u>\$ 166,519</u>	<u>\$ 299,299</u>	<u>\$ 7,672,385</u>
<u>\$ 3,132,209</u>	<u>\$ 166,519</u>	<u>\$ 299,299</u>	<u>\$ 7,672,385</u>
\$	\$	\$ 1,741	\$ 41,812
		133,203	133,203
3,132,209			3,132,209
	166,519		166,519
			1,280,967
		164,355	2,917,675
<u>\$ 3,132,209</u>	<u>\$ 166,519</u>	<u>\$ 299,299</u>	<u>\$ 7,672,385</u>

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 7,672,385
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	7,712,484
Accumulated Depreciation	(2,115,961)
Receivable -Hospital	286,917
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(286,917)
Bond Anticipation Note	(4,000,000)
Net Assets Of Governmental Activities	<u>\$ 9,268,908</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	Payroll and Net Profit Tax Fund
REVENUES				
Taxes	\$ 1,271,535	\$	\$	\$ 1,293,785
Excess Fees	241,244			
Licenses and Permits	6,509			
Intergovernmental	262,649	1,618,255	106,344	
Charges for Services	62,865			
Miscellaneous	155,785	20,867	4,010	9,382
Interest	38,363	40,633	25,081	44,056
Total Revenues	<u>2,038,950</u>	<u>1,679,755</u>	<u>135,435</u>	<u>1,347,223</u>
EXPENDITURES				
General Government	562,190	7,200		36,606
Protection to Persons and Property	379,437		743,633	
General Health and Sanitation	165,564	4,848		
Social Services	60,504			
Recreation and Culture	167,574			
Transportation Facilities and Services		6,287		
Roads		1,509,340		
Debt Services	591,080			
Capital Projects	713,337	53,171		
Administration	819,942	187,543	79	
Total Expenditures	<u>3,459,628</u>	<u>1,768,389</u>	<u>743,712</u>	<u>36,606</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,420,678)</u>	<u>(88,634)</u>	<u>(608,277)</u>	<u>1,310,617</u>
Other Financing Sources (Uses)				
Debt Issuance	585,938			
Transfers From Other Funds	1,620,422	300,000	725,000	
Transfers To Other Funds	(725,000)	(57,840)		(1,425,000)
Total Other Financing Sources (Uses)	<u>1,481,360</u>	<u>242,160</u>	<u>725,000</u>	<u>(1,425,000)</u>
Net Change in Fund Balances	60,682	153,526	116,723	(114,383)
Fund Balances - Beginning	1,227,324	979,834	459,980	1,190,672
Fund Balances - Ending	<u>\$ 1,288,006</u>	<u>\$ 1,133,360</u>	<u>\$ 576,703</u>	<u>\$ 1,076,289</u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Public Properties Corporation- Construction Fund	Public Properties Corporation- Debt Service Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 2,565,320
			241,244
			6,509
		203,406	2,190,654
		11,013	73,878
		57,550	247,594
13,552	752	1,902	164,339
<u>13,552</u>	<u>752</u>	<u>273,871</u>	<u>5,489,538</u>
		40,000	645,996
			1,123,070
		210,342	380,754
			60,504
			167,574
			6,287
		75,400	1,584,740
			591,080
119,105			885,613
	33,889	29	1,041,482
<u>119,105</u>	<u>33,889</u>	<u>325,771</u>	<u>6,487,100</u>
<u>(105,553)</u>	<u>(33,137)</u>	<u>(51,900)</u>	<u>(997,562)</u>
	4,000,000		4,585,938
3,800,344		125,000	6,570,766
(562,582)	(3,800,344)		(6,570,766)
<u>3,237,762</u>	<u>199,656</u>	<u>125,000</u>	<u>4,585,938</u>
3,132,209	166,519	73,100	3,588,376
		226,199	4,084,009
<u>\$ 3,132,209</u>	<u>\$ 166,519</u>	<u>\$ 299,299</u>	<u>\$ 7,672,385</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 3,588,376
<p>Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	2,099,798
Depreciation Expense	(517,136)
Book Value of Disposed Assets	(257,830)
Notes Receivable principal received are receipted in the Governmental Funds as a source of current financial resources but at the government-wide level, are a reduction to the receivable. These transaction have no effect on net assets.	(28,083)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while financing obligation and bond principle payments are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets	
Financing Obligations Proceeds	(585,938)
Bond Anticipation Note Proceeds	(4,000,000)
Financing Obligations Payments	614,021
Change in Net Assets of Governmental Activities	<u>\$ 913,208</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Mercer County does not have any discretely presented component units.

Blended Component Units

The following legally separate organizations provided its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blended method.

Mercer County Public Properties Corporation

The Mercer County Public Properties Corporation was established in December 2007 for the purpose of financing the construction and installation of public projects in furtherance of the proper public purposes of Mercer County. Since fiscal court has complete authority over this entity this makes it a component unit of the county. The financial information for the Mercer County Public Properties Corporation is blended within Mercer County's financial statements.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Mercer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Mercer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Payroll and Net Profit Tax Fund - This fund is for the collection of local payroll taxes and net profit tax. The primary sources of revenue for this fund are payment of taxes for annual profit and payment of payroll taxes.

Public Properties Corporation Debt Service Fund - This fund accounts for the accumulation of resources for the payment of long-term debt principal and interest for the Mercer County Justice Center. The Public Properties Corporation issued debt to build a new courthouse and has entered into a contract, lease and option with the County. The Department for Local Government does not require the fiscal court to report or budget these funds.

Public Properties Corporation Construction Fund - This fund accounts for the funds used for the construction of the Mercer County Justice Center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Landfill Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Payroll and Net Profit Tax Fund, and Landfill Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	25,000	10-60
Machinery and Equipment	5,000	3-20
Vehicles	5,000	3-20
Infrastructure	10,000	10-40

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy with regard to custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 54,884	\$ 202,500	\$ (2,500)	\$ 254,884
Construction in Progress		804,527		804,527
Total Capital Assets Not Being Depreciated	54,884	1,007,027	(2,500)	1,059,411
Capital Assets, Being Depreciated:				
Buildings	2,221,244		(464,092)	1,757,152
Equipment	995,989	32,913		1,028,902
Vehicles	667,120	96,944	(74,090)	689,974
Infrastructure	2,214,131	962,914		3,177,045
Total Capital Assets Being Depreciated	6,098,484	1,092,771	(538,182)	6,653,073
Less Accumulated Depreciation For:				
Buildings	(515,494)	(53,170)	213,763	(354,901)
Equipment	(361,255)	(85,069)		(446,324)
Vehicles	(530,885)	(63,904)	69,089	(525,700)
Infrastructure	(474,043)	(314,993)		(789,036)
Total Accumulated Depreciation	(1,881,677)	(517,136)	282,852	(2,115,961)
Total Capital Assets, Being Depreciated, Net	4,216,807	575,635	(255,330)	4,537,112
Governmental Activities Capital Assets, Net	\$ 4,271,691	\$ 1,582,662	\$ (257,830)	\$ 5,596,523

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 106,331
Protection to Persons and Property	5,876
General Health and Sanitation	2,412
Social Services	30,931
Roads, Including Depreciation of General Infrastructure Assets	<u>371,586</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 517,136</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Changes in Short-term Liabilities

In July 2007, Mercer County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,005,900, with principal being due in January 2008. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$6,471 in the General Fund.

	Beginning Balance	Additions	Reductions	Ending Balance
Primary Government:				
<u>Governmental Activities</u>				
KARP	\$	\$ 1,005,900	\$1,005,900	\$
Governmental Activities				
Short-term Liabilities	\$	\$ 1,005,900	\$ 1,005,900	\$

Note 5. Long-term Debt

A. Bond Anticipation Note-Justice Center

On March 1, 2008, the Mercer County Public Properties Corporation entered into a \$4,000,000 First Mortgage Revenue Bond Anticipation Note. The proceeds from this note will provide interim financing for the cost of development, acquisition and construction of a Justice Center, and will pay the cost of issuance incurred with respect to the issuance of the Note. The interest rate is 3.5 %, and is payable each March 1 and September 1. The principal is due March 1, 2010. The Bond Anticipation Note outstanding as of June 30, 2008 was \$4,000,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$	\$ 140,000
2010	4,000,000	140,000
Totals	\$ 4,000,000	\$ 280,000

B. Hospital Equipment/Note Receivable

In October 2007 Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000, for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement. The interest rate is 4.111%. Principal and interest are due monthly. The balance outstanding as of June 30, 2008 was \$286,917. Future principal and interest requirements are:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

B. Hospital Equipment/Note Receivable

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 58,312	\$ 10,570
2010	61,295	8,216
2011	64,431	5,741
2012	67,727	3,141
2013	35,152	554
Totals	<u>\$ 286,917</u>	<u>\$ 28,222</u>

The County has also recorded a note receivable due for the amount of the debt incurred by the County as follows:

Current Portion	\$ 58,312
Long-Term Portion	<u>228,605</u>
Total	<u>\$ 286,917</u>

C. Financing Obligation/Commercial Building

On February 27, 2008, the Mercer County Fiscal Court obtained a \$585,938 loan for the purpose of acquisition of a commercial building. The interest rate was 4.450% and the entire principal payment was due July 27, 2008. The fiscal court paid this loan off on May 8, 2008. The principal balance remaining at June 30, 2008 was zero.

D. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bond Anticipation Note	\$	\$ 4,000,000	\$	\$ 4,000,000	\$
Financing Obligations		<u>900,938</u>	<u>614,021</u>	<u>286,917</u>	<u>58,312</u>
Governmental Activities					
Long-term Liabilities	<u>\$</u>	<u>\$ 4,900,938</u>	<u>\$ 614,021</u>	<u>\$ 4,286,917</u>	<u>\$ 58,312</u>

Note 6. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities included \$5,142 in interest on financing obligations.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange for the use of the facility for Mercer County prisoners.

Note 8. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund and for fiscal year ended June 30, 2008, Mercer County expended approximately \$40,000 for postclosure costs. Future costs are estimated to be the same as what was spent in this fiscal year and have been budgeted in the Landfill fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

The Mercer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 10. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2008, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Subsequent Events

In September 2008, Mercer County Fiscal Court entered into a five year lease agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the County.

Note 13. Prior Period Adjustment

The June 30, 2007 net asset balance has been restated to reflect capital assets previously omitted from the County's capital asset schedules. Equipment with a historical cost of \$36,999 and accumulated depreciation of \$30,800, as of June 30, 2007, was omitted. The net effect is an increase of the June 30, 2007 net asset balance in the amount of \$6,199.

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MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,215,000	\$ 1,215,000	\$ 1,271,535	\$ 56,535
In Lieu Tax Payments	2,000	2,000		(2,000)
Excess Fees	109,854	109,854	241,244	131,390
Licenses and Permits	7,000	7,000	6,509	(491)
Intergovernmental Revenue	1,542,755	1,563,755	262,649	(1,301,106)
Charges for Services	52,500	52,500	62,865	10,365
Miscellaneous	40,500	540,500	718,367	177,867
Interest	37,000	37,000	38,363	1,363
Total Revenues	<u>3,006,609</u>	<u>3,527,609</u>	<u>2,601,532</u>	<u>(926,077)</u>
EXPENDITURES				
General Government	763,696	776,358	614,931	161,427
Protection to Persons and Property	417,520	444,133	379,437	64,696
General Health and Sanitation	394,900	409,034	165,564	243,470
Social Services	64,700	66,350	60,504	5,846
Recreation and Culture	1,119,250	1,128,825	167,574	961,251
Debt Services		598,145	591,080	7,065
Capital Projects	250,000	1,128,195	636,651	491,544
Administration	1,073,111	984,320	843,887	140,433
Total Expenditures	<u>4,083,177</u>	<u>5,535,360</u>	<u>3,459,628</u>	<u>2,075,732</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,076,568)</u>	<u>(2,007,751)</u>	<u>(858,096)</u>	<u>1,149,655</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money		585,938	585,938	
Transfers From Other Funds	1,050,924	1,050,924	1,057,840	6,916
Transfers To Other Funds	(574,356)	(574,356)	(725,000)	(150,644)
Total Other Financing Sources (Uses)	<u>476,568</u>	<u>1,062,506</u>	<u>918,778</u>	<u>(143,728)</u>
Net Changes in Fund Balance	(600,000)	(945,245)	60,682	1,005,927
Fund Balance - Beginning	<u>600,000</u>	<u>945,245</u>	<u>1,227,324</u>	<u>282,079</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,288,006</u>	<u>\$ 1,288,006</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,427,904	\$ 1,627,904	\$ 1,618,255	\$ (9,649)
Miscellaneous	11,000	11,000	20,867	9,867
Interest	33,000	33,000	40,633	7,633
Total Revenues	1,471,904	1,671,904	1,679,755	7,851
EXPENDITURES				
General Government	14,200	14,200	7,200	7,000
General Health and Sanitation	29,390	29,390	4,848	24,542
Transportation Facilities and Services	9,000	9,000	6,287	2,713
Roads	1,481,250	1,738,853	1,562,510	176,343
Other Transportation Facilities and Services	700	700		700
Capital Projects	10,000	10,000		10,000
Administration	307,750	250,147	187,543	62,604
Total Expenditures	1,852,290	2,052,290	1,768,388	283,902
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(380,386)	(380,386)	(88,633)	291,753
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	38,226	38,226	300,000	261,774
Transfers To Other Funds	(57,840)	(57,840)	(57,840)	
Total Other Financing Sources (Uses)	(19,614)	(19,614)	242,160	261,774
Net Changes in Fund Balance	(400,000)	(400,000)	153,527	553,527
Fund Balance - Beginning	400,000	400,000	979,834	579,834
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,133,361	\$ 1,133,361

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 105,752	\$ 105,752	\$ 106,344	\$ 592
Charges for Services	9,500	9,500		(9,500)
Miscellaneous	1,000	1,000	4,010	3,010
Interest	22,000	22,000	25,081	3,081
Total Revenues	138,252	138,252	135,435	(2,817)
EXPENDITURES				
Protection to Persons and Property	707,408	742,528	743,633	(1,105)
Administration	35,200	80	79	1
Total Expenditures	742,608	742,608	743,712	(1,104)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(604,356)	(604,356)	(608,277)	(3,921)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	574,356	574,356	775,000	200,644
Total Other Financing Sources (Uses)	574,356	574,356	775,000	200,644
Net Changes in Fund Balance	(30,000)	(30,000)	166,723	196,723
Fund Balance - Beginning	30,000	30,000	459,980	429,980
Fund Balance - Ending	\$ 0	\$ 0	\$ 626,703	\$ 626,703

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

PAYROLL AND NET PROFIT TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,022,000	\$ 1,022,000	\$ 1,293,785	\$ 271,785
Miscellaneous			9,382	9,382
Interest	59,000	59,000	44,056	(14,944)
Total Revenues	1,081,000	1,081,000	1,347,223	266,223
EXPENDITURES				
General Government	49,700	49,700	36,606	13,094
Administration	20,000	20,000		20,000
Total Expenditures	69,700	69,700	36,606	33,094
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,011,300	1,011,300	1,310,617	299,317
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,175,110)	(1,175,110)	(1,425,000)	(249,890)
Total Other Financing Sources (Uses)	(1,175,110)	(1,175,110)	(1,425,000)	(249,890)
Net Changes in Fund Balances	(163,810)	(163,810)	(114,383)	49,427
Fund Balances - Beginning	163,810	163,810	1,190,672	1,026,862
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,076,289	\$ 1,076,289

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 2,601,532
To Reclass Transfers from Public Properties Corp. Construction Fund	<u>(562,582)</u>
Total Revenues-Modified Cash Basis	<u>2,038,950</u>
Total Other Financing Sources and Uses-Budgetary Basis	918,778
To Reclass Transfers from Public Properties Corp. Construction Fund	<u>562,582</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u>1,481,360</u>

Reconciliation of the Jail Fund

Total Other Financing Sources and Uses-Budgetary Basis	775,000
To Adjust for Duplication in Recording Transfers	<u>(50,000)</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u>725,000</u>
Total Fund Balance - Budgetary Basis	626,703
To Adjust for Duplication in Recording Transfers	<u>(50,000)</u>
Total Fund Balance - Modified Cash Basis	<u>\$ 576,703</u>

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**MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	LGEA Fund	Landfill Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 164,355	\$ 134,944	\$ 299,299
Total Assets	<u>\$ 164,355</u>	<u>\$ 134,944</u>	<u>\$ 299,299</u>
FUND BALANCES			
Reserved for:			
Encumbrances	\$	\$ 1,741	\$ 1,741
Landfill		133,203	133,203
Unreserved:			
Special Revenue Funds	<u>164,355</u>		<u>164,355</u>
Total Fund Balances	<u>\$ 164,355</u>	<u>\$ 134,944</u>	<u>\$ 299,299</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	LGEA Fund	Landfill Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 115,067	\$ 88,339	\$ 203,406
Charges for Services		11,013	11,013
Miscellaneous		57,550	57,550
Interest	1,628	274	1,902
Total Revenues	<u>116,695</u>	<u>157,176</u>	<u>273,871</u>
EXPENDITURES			
General Government	40,000		40,000
General Health and Sanitation		210,342	210,342
Roads	75,400		75,400
Administration		29	29
Total Expenditures	<u>115,400</u>	<u>210,371</u>	<u>325,771</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,295</u>	<u>(53,195)</u>	<u>(51,900)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		125,000	125,000
Total Other Financing Sources (Uses)		<u>125,000</u>	<u>125,000</u>
Net Change in Fund Balances	1,295	71,805	73,100
Fund Balances - Beginning	163,060	63,139	226,199
Fund Balances - Ending	<u>\$ 164,355</u>	<u>\$ 134,944</u>	<u>\$ 299,299</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



Peercy and gray, PSC
Certified Public Accountants
2300 Hurstbourne Village Drive, Suite 500
Louisville, Kentucky 40299
Phone: (502) 493-1090
FAX: (502) 493-7231

The Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 15, 2009. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC

January 15, 2009

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

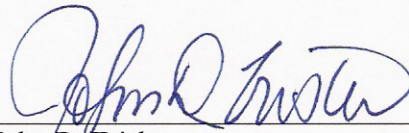
MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

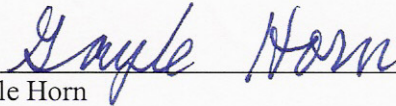
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John D. Trisler
County Judge/Executive



Gayle Horn
County Treasurer

